

Report
of the
Examination of
Employers Life Insurance Company of Wausau
Wausau, Wisconsin
As of December 31, 1996

TABLE OF CONTENTS

	Page
I. INTRODUCTION	1
II. HISTORY AND PLAN OF OPERATION	4
III. MANAGEMENT AND CONTROL	10
IV. AFFILIATED COMPANIES	15
V. REINSURANCE	23
VI. FINANCIAL DATA	28
VII. SUMMARY OF EXAMINATION RESULTS	41
VIII. CONCLUSION	50
IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS	52
X. ACKNOWLEDGMENT	53

March 19, 1998

Honorable Steven Larsen
Secretary, Northeastern Zone I, NAIC
Insurance Commissioner
State of Maryland
525 St. Paul Place, 7th Floor
Baltimore, MD 21202-2272

Honorable Mark Boozell
Secretary, Midwestern Zone III, NAIC
Director of Insurance
State of Illinois
320 West Washington Street, 4th Floor
Springfield, IL 62767

Honorable Alfred W. Gross
Chairperson, Financial Condition (EX4)
Subcommittee
Secretary, Southeastern Zone II, NAIC
Commissioner of Insurance
State of Virginia
1300 East Main Street
Richmond, VA 23218

Honorable Chris Krahling
Secretary, Western Zone IV, NAIC
Superintendent of Insurance
State of New Mexico
P. O. Drawer 1269
Santa Fe, NM 87504-1269

Honorable Randy Blumer
Commissioner of Insurance
State of Wisconsin
121 East Wilson Street

Commissioners:

In accordance with your instructions, a compliance examination has been made of
the affairs and financial condition of:

EMPLOYERS LIFE INSURANCE COMPANY OF WAUSAU
Wausau, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of the company was conducted in 1993 and 1994 as of
December 31, 1992. The current examination covered the intervening period ending
December 31, 1996, and included a review of such 1997 and 1998 transactions as deemed
necessary to complete the examination.

The examination consisted of a review of all major phases of the company's
operations, and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employees' Welfare and Pension Plans
Territory and Plan of Operations
Affiliated Companies
Growth of Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

A concurrent examination was conducted by the Market Regulation Bureau of Wisconsin's Office of the Commissioner of Insurance, and the results of that examination were expressed in a separate report. That report contains descriptions of company policies and procedures related to market conduct issues, as well as elaboration on those areas where adverse findings were noted.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the work papers of the independent public accounting firm. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

An independent actuary was engaged under a contract with the Office of the Commissioner of Insurance. He reviewed the adequacy of aggregate life and accident and health reserves, dividends to policyholders, cash-flow testing, deferred and uncollected premiums for life insurance, due and uncollected premiums for health insurance, and in-force testing. The results of his work were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

Employers Life Insurance Company of Wausau (hereinafter also "ELIC"), a stock life and health company operating under ch. 611, Wis. Stat., was incorporated under the name currently used on August 23, 1965. EMPLOYERS INSURANCE OF WAUSAU A Mutual Company, which was then known as Employers Mutual Liability Insurance Company (hereinafter also "Employers"), provided the initial capital and expendable surplus of the company.

In 1977, Wausau Service Corporation (hereinafter also "WSC"), a subsidiary of Employers, was restructured to act as a holding company for nearly all subsidiaries of Employers. Effective January 2, 1978, all outstanding stock of Employers' subsidiaries, including that of Employers Life Insurance Company of Wausau, was transferred to WSC.

On November 23, 1985, Employers consummated an affiliation agreement with Nationwide Mutual Insurance Company (hereinafter also "NMIC") dated November 6, 1985. NMIC's sister company, Nationwide Mutual Fire Insurance Company (hereinafter also "NMFIC"), is not party to the affiliation agreement. Within the context of this agreement, and certain subsequent agreements, NMIC exercises control of Employers and its subsidiaries through nomination of the various boards of directors, common executive management, and control of the reinsurance pool to which all direct premiums written by Employers are ceded and from which all net premiums written are assumed. The directors of Employers continue to be elected by the policyholders of Employers, as required by s. 611.53 (2), Wis. Stat. Election and reelection of nominees associated with NMIC on the Employers board have preserved the affiliation.

On December 31, 1994, Wausau Service Corporation sold all of the issued and outstanding shares of Employers Life Insurance Company of Wausau, together with ELIC's wholly owned subsidiary, Wausau Preferred Health Insurance Company, to Nationwide Life Insurance Company. The combined sales price of ELIC and Wausau Preferred Health Insurance Company was \$155,000,000.

On January 1, 1997, ownership of Employers Life Insurance Company of Wausau was transferred to Nationwide Corporation, a holding company, which common stock is owned

by NMIC (95.2%) and NMFIC (4.8%). In this way, ELIC became a second-tier subsidiary of Nationwide Mutual Insurance Company and Nationwide Mutual Fire Insurance Company, its current ultimate parents. Additional information concerning the holding company system headed by NMIC (hereinafter also “Nationwide Insurance Enterprise”), and the company’s relationships with its affiliates, is contained in the section of this report titled, “Affiliated Companies.”

Changes in the company’s capitalization structure since incorporation are illustrated as follows:

Year	Number of Shares Authorized	Number of Shares Outstanding	Par Value per Share	Capital Paid Up	Gross Paid-In and Contributed Surplus
1965	200,000	100,000	\$10.00	\$1,000,000	\$ 2,000,000
1967	200,000	105,000	10.00	1,050,000	2,100,000
1968	200,000	125,000	10.00	1,250,000	2,500,000
1989	500,000	250,000	10.00	2,500,000	21,811,656
1992	500,000	250,000	10.00	2,500,000	23,913,193

The company has no employees of its own. All day-to-day operations are conducted with staff provided by Wausau Service Corporation and Nationwide Mutual Insurance Company in accordance with the business practices and internal controls of those organizations. Virtually all expenses are initially paid by EMPLOYERS INSURANCE OF WAUSAU A Mutual Company. Expenses other than federal income taxes are allocated in accordance with a system of approximately 1,000 allocation models, which, in turn, are developed on the basis of specific identification, utilization estimates, and time studies, in conformity with a general expense allocation agreement. The company’s federal income taxes were filed on a separate, nonconsolidated basis in 1996. Intercompany balances with affiliates are created in the ordinary course of business with settlements generally made on a monthly basis. Written agreements with affiliates are further described in the section of this report titled, “Affiliated Companies”.

ELIC’s operations are coordinated from the home offices of EMPLOYERS INSURANCE OF WAUSAU A Mutual Company in Wausau, Wisconsin. Support services are provided from a network of claim, legal, and marketing offices throughout the United States.

In the state of Wisconsin, the company is licensed to transact participating and nonparticipating life and annuity business as defined by s. Ins 6.75 (1) (a), Wis. Adm. Code. The

company is licensed to conduct business in all states and the District of Columbia, except New York. There are no applications for admission pending in any jurisdiction.

There was a significant revision in the company's plan of operation effective January 1, 1996. This revision was most prominently reflected in certain new reinsurance arrangements:

- Effective January 1, 1996, the company assumes all of the group A&H insurance risks written by its affiliate, EMPLOYERS INSURANCE OF WAUSAU A Mutual Company. Pursuant to the reinsurance agreement, Employers is entitled to withhold funds in proportion to the outstanding policy and claim reserve levels. The reinsurance agreement provides for the payment of interest to the company on funds withheld. By this reinsurance agreement, the company replaced its subsidiary, Wausau Preferred Health Insurance Company (hereinafter also "WPHIC"), as Employers' group A&H reinsurer.
- Effective January 1, 1996, the company provides to Employers certain services for uninsured accident and health plans, which were previously performed by Employers itself. The company essentially performs in the capacity of a subcontractor. The service fee income is reflected as service contract fees in the statement of operations, while the allocated expense is included in general insurance expenses. For some years prior to January 1, 1996, Wausau Preferred Health Insurance Company acted in this subcontracting capacity.
- Effective January 1, 1996, the company entered into a modified coinsurance agreement with Nationwide Life Insurance Company, an affiliate, whereby accident and health and group life insurance written or assumed by Nationwide Life Insurance Company is ceded to the company. Under modified coinsurance agreements, the ceding company retains the reserves and related invested assets. In accordance with the agreement, quarterly settlements are made for the difference between the yield on the assets supporting the reserves reinsured and the net change in the reserves reinsured.
- Effective January 1, 1996, the company assumes from Wausau Preferred Health Insurance Company, a direct wholly owned subsidiary, 100% of its direct group A&H risks. Outstanding reserves held by WPHIC at January 1, 1996, were transferred to the company pursuant to this agreement.

On a prospective basis, ELIC has been positioned to grow with capitated community health plan arrangements in selected secondary markets, particularly in Wisconsin and central California. The company will provide administrative services to health maintenance organizations. Management will continue to seek growth in its ancillary products, consisting of long-term disability and group life, which have been profitable. Achieving growth in these ancillary lines will require emphasis to be placed upon administrative service arrangements for self-insured employers.

The following tables form a comparative summary of gross and net premiums written, together with administrative service program results, in 1992 and 1996, respectively:

Direct and Assumed Premium	1992 Premium	1992 Percent	1996 Premium	1996 Percent	Percent Change in Premium
Ordinary Life	\$ 4,885,767	4.1%	\$ 3,397,261	0.7%	(30.5)%
Individual Annuities	5,986,638	5.0	2,201,857	0.4	(63.2)
Group Life	12,422,350	10.3	25,490,093	4.9	105.2
Group Annuities	17,594,229	14.6	31,831,955	6.2	80.9
Group Health:					
Dental	0	0.0	6,595,807	1.3	∞
Traditional Indemnity	0	0.0	255,012,808	49.4	∞
Managed Care	0	0.0	104,973,152	20.4	∞
Individual A&H (Noncancellable & Guaranteed Renewable)	147,112	0.1	87,647	0.0	(40.2)
Individual A&H (Collectively Renewable)	0	0.0	8,762,618	1.7	∞
Deposit-Type Funds	<u>79,189,352</u>	<u>65.9</u>	<u>77,425,061</u>	<u>15.0</u>	<u>(2.2)</u>
Total All Lines	<u>\$120,225,448</u>	<u>100.0%</u>	<u>\$515,778,259</u>	<u>100.0%</u>	<u>329.0%</u>

Net Premium	1992 Premium	1992 Percent	1996 Premium	1996 Percent	Percent Change in Premium
Ordinary Life	\$ 4,338,250	4.0%	\$ (102,369)	0.0%	(102.4)%
Individual Annuities	5,986,638	5.5	1,183,396	0.2	(80.2)
Group Life	1,264,042	1.2	29,007,651	5.6	2,194.8
Group Annuities	17,594,229	16.2	31,831,955	6.3	80.9
Group Health:					
Dental	0	0.0	6,595,808	1.3	∞
Traditional Indemnity	0	0.0	255,012,807	49.5	∞
Managed Care	0	0.0	104,973,152	20.4	∞
Individual A&H (Noncancellable & Guaranteed Renewable)	64,334	0.0	(8,239)	0.0	(112.8)
Individual A&H (Collectively Renewable)	0	0.0	8,762,618	1.7	∞
Deposit-Type Funds	<u>79,189,352</u>	<u>73.0</u>	<u>77,425,061</u>	<u>15.0</u>	<u>(2.2)</u>
Total All Lines	<u>\$108,436,845</u>	<u>100.0%</u>	<u>\$514,681,840</u>	<u>(100.0)%</u>	<u>374.6%</u>

Uninsured A&H Plans	1992	1996	Percent Change in Results
Service income	\$-0-	\$36,918,891	∞%
Service expense	<u>-0-</u>	<u>37,133,286</u>	∞
Net return on service administration	<u>\$-0-</u>	<u>\$ (214,395)</u>	∞%
Cash flow under management related to uninsured A&H programs	<u>\$-0-</u>	<u>\$633.2 million</u>	∞%

Business is written through a salesforce consisting of 313 agents, which includes both salaried WSC account representatives and independent agents paid on commission.

Account representatives are employees of the company. Each receives a salary, with the opportunity to earn a bonus, if his remuneration credits, tallied much the same as commissions, exceed his salary and chargeable business expenses. If remuneration credits do not exceed salary and chargeable expenses, there is no chargeback, nor is the deficiency carried into the following year's compensation formula.

Account representatives have access to the same employee benefit plans offered to nonmarketing employees. In addition, account representatives are eligible to participate in "The Capital Plan," a long-term deferred compensation program specifically for marketing employees. Under this plan, a percentage of the revenue produced by the account representative above a set threshold of annual production is set aside on his behalf, and earns investment income. After 10 full years of service, if the representative does not violate his marketing agreement and is not discharged for embezzlement, misappropriation of funds, fraud, or other valid cause, the deferred compensation and earnings thereon are vested with the representative.

Independent agents are compensated according to the following commission schedule. Most rates are on a sliding scale that declines with the volume of premium or service revenue related to a specific policy:

Product Line	Commission Rates
Group Accident & Health - Insured	0.5% to 4.0%
Group Accident & Health - ASO	6% for first \$200,000 only
Group Dental - Insured	1.4% to 8.1%
Group Dental -ASO	0.6% to 15.5%
Group Life – Insured	1.4% to 8.1%
Group Limited Term Disability	0.5% to 15.0%
Stop-Loss	10%

III. MANAGEMENT AND CONTROL

Control by Succession of Parent Corporations

Nationwide Mutual Insurance Company holds ultimate control of the company's board and of its executive direction. As more thoroughly described both previously and in Section IV, "Affiliated Companies," of this report, all issued and outstanding common shares of the company are indirectly, but wholly, owned by Nationwide Mutual Insurance Company and Nationwide Mutual Fire Insurance Company. While a director of the company is generally elected for a term of one year, the articles of incorporation provide that a director may be removed from office by an affirmative vote of the majority of shares entitled to vote taken at any annual or special meeting of the sole shareholder.

In addition to control of its board of directors, ultimate executive direction of the company is held by the chief executive officer of Nationwide Mutual Insurance Company. Article V, Section 4, of the bylaws, states that "The Chairman and Chief Executive Officer - Nationwide Insurance Enterprise shall be the chief executive officer and shall exercise general administrative leadership and direction of the Corporation in conformity with the actions and controls established and maintained by the Board of Directors."

Board of Directors

The board of directors consists of five members. Directors are elected annually to serve one-year terms. As executive employees of the holding company system, the directors receive no compensation specific to their service on the board. Members of the company's board of directors are typically members of other boards of directors in the holding company system. Officers are elected at the board's annual organizational meeting, and as positions are created or fall vacant.

At the examination date, the board of directors consisted of the following persons:

Name and Residence	Principal Occupation	Expiry
Galen R. Barnes Columbus, Ohio	Vice Chairman of the Board Nationwide Mutual Insurance Company	1998
Dwight E. Davis Mosinee, Wisconsin	President and Chief Operating Officer EMPLOYERS INSURANCE OF WAUSAU A Mutual Company	1998
Alfred P. Moore Wausau, Wisconsin	Senior Vice President, Group Operations EMPLOYERS INSURANCE OF WAUSAU A Mutual Company	1998
D. Richard McFerson Delaware, Ohio	Chairman and Chief Executive Officer - Nationwide Insurance Enterprise, Nationwide Mutual Insurance Company	1998
Douglas C. Robinette Wausau, Wisconsin	Executive Vice President, Customer Services EMPLOYERS INSURANCE OF WAUSAU A Mutual Company	1998

Committees of the Board

Article IV of the company's bylaws permit the formation of committees by the board of directors. There are currently no board committees. However, on May 26, 1995, the board recognized and authorized the joint investment committee of Nationwide Mutual Insurance Company and EMPLOYERS INSURANCE OF WAUSAU A Mutual Company "to review and approve investments, to issue executive resolutions, and to otherwise act on behalf of the Corporation in investment decisions, consistent with applicable laws and regulations and existing contractual and other obligations of the Corporation."

This investment committee is a joint committee resolving upon matters affecting Employers, Wausau Business Insurance Company, Wausau Underwriters Insurance Company, Employers Life Insurance Company of Wausau, and Wausau Preferred Health Insurance Company. The primary function of this committee is to recommend to the full board a general investment policy for the company. It also reviews, monitors, and approves the investment transactions authorized by management between its meetings. The investment committee meets more frequently than most of the other joint board committees, usually seven or eight times per year. Most of the deliberations and discussions of the committee members occur out of session. During its meetings, the committee enters documents and plans, and the results of

its deliberations upon those documents and plans into the minutes. Membership of the investment committee at the examination date was as follows: D. Richard McFerson (Chairperson), Charles L. Fuellgraf, Jr., Henry S. Holloway, David O. Miller, James F. Patterson, and Arden L. Shisler.

It is the practice of the board to review and ratify the decisions of this joint investment committee.

Other Joint Committees

Due to significant overlap in the membership of the boards of Nationwide Mutual Insurance Company and its insurance company subsidiaries and affiliates and the boards of Employers and its insurance subsidiaries and affiliates, committee meetings are often conducted on a joint basis on behalf of the entire Nationwide Insurance Enterprise. The following joint committees of Nationwide Mutual Insurance Company and EMPLOYERS INSURANCE OF WAUSAU A Mutual Company deliberate and resolve upon matters affecting the company, though they have not been formally recognized by ELIC's board.

Audit Committee

The joint audit committee meets from time-to-time as necessary, typically four or five times per year. It is the function of this committee to maintain direct lines of communication between the board of directors and both the company's independent public accounting firm, and the internal audit department. The committee makes recommendations to the full board on the appointment of public accountants; reviews the financial statements of the company, its subsidiaries, and affiliates; inquires into the effectiveness of the company's internal auditing methods and procedures; and makes reports concerning its activities to the full board.

Membership of the audit committee at the examination date was as follows: James F. Patterson (Chairman), Lewis J. Alphin, Willard J. Engel, C. Ray Noecker, San W. Orr, Jr., and Robert L. Stewart.

Salary and Compensation Committee

The salary and compensation committee meets from time-to-time as its responsibilities may require; during the examination period, it has usually met six or seven times

per year. It is the function of this committee to research and issue recommendations to the board as a whole concerning director and senior executive compensation. Oversight is also extended to matters affecting retirement programs and employee benefit plans, succession plans, and personnel matters relating to high-level executives. Membership of the salary and compensation committee at the examination date was as follows: David O. Miller (Chairman), Fred C. Finney, Charles L. Fuellgraf, Jr., Willard J. Engel, Henry S. Holloway, D. Richard McFerson, and Nancy C. Thomas.

Officers of the Company

The officers appointed by the board of directors and serving at the time of this examination are listed below.

Name	Office
D. Richard McFerson	Chairman of the Board
D. Richard McFerson	Chairman & Chief Executive Officer - Nationwide Insurance Enterprise
Galen R. Barnes	President
Alfred P. Moore	Executive Vice President and Chief Operating Officer
Gordon E. McCutchan	Executive Vice President, Law and Corporate Services and Secretary
Robert A. Oakley	Executive Vice President & Chief Financial Officer
Robert J. Woodward, Jr.	Executive Vice President & Chief Investment Officer
W. Sidney Druen	Senior Vice President, General Counsel, and Assistant Secretary
Douglas C. Robinette	Executive Vice President, Customer Services
Jay M. Anliker	Vice President - Financial Services and Assistant Secretary
E. Jay Coldwell	Vice President - Managed Care
Thomas J. Erickson	Vice President - Group Retirement
Alan N. Ferguson	Vice President
J. Stanley Hoffert	Vice President - Associate General Counsel and Secretary
John R. Laehn	Vice President - HMO Operations
Michael D. Lawless	Vice President - Structured Settlements and Individual Insurance
Thomas K. Manion	Vice President & Controller
Edwin P. McCausland, Jr.	Vice President - Fixed Income Securities
Robert H. McNaughten	Vice President - Investments
Gerald E. Osband, M.D.	Vice President - Medical Affairs and Managed Care Development
John G. Powles	Vice President
Joseph San Filippo	Vice President - Group Claim Administration

Name	Office
Mark E. Saxton	Vice President - Standard Accounts
Stephen A. Sedlak	Vice President - Chief Actuary
Jeffrey L. Zriny	Vice President - Employee Benefits Marketing
John S. Torrens	Vice President & Treasurer

IV. AFFILIATED COMPANIES

Employers Life Insurance Company of Wausau is a member of the Nationwide Insurance Enterprise, a multinational holding company system under the dual control of Nationwide Mutual Insurance Company (hereinafter also "NMIC") and Nationwide Mutual Fire Insurance Company (hereinafter also "NMFIC"). A chart of the companies within the holding company system is presented later in this section of the examination report.

Present Succession of Control

ELIC is a second-tier affiliate of NMIC. Each entity in the immediate succession of control is described below, beginning with the ultimate parent and progressing to the next immediate tier of control.

Nationwide Mutual Insurance Company

Nationwide Mutual Insurance Company was incorporated under the laws of the state of Ohio on December 16, 1925, and commenced business on April 14, 1926. It was organized under the auspices of, and endorsed by, the Ohio Farm Bureau Federation to provide automobile insurance to those eligible for membership in the federation. Operations were conducted under the name of Farm Bureau Mutual Automobile Insurance Company until September 1, 1955, when the present name was adopted. It retains strong ties to its agribusiness origins through a distinctive process of nominating its independent (nonemployee) directors. Eleven of the 14 members of the board are nominated from certain sponsorship organizations, specifically, the Ohio Farm Bureau Federation, Maryland Farm Bureau, Ruralite Services, Farmland Industries, Pennsylvania Farmers' Association, and Southern States Cooperative. After a nominee of a sponsorship organization is elected to the board by a majority vote of the policyholders, the newly elected director resigns from any office held with the sponsorship organization.

As of December 31, 1996, NMIC, and its sister company, NMFIC, exercised direct or indirect ownership or control of 111 legal entities, including 98 stock corporations, 3 mutual insurance companies, 4 common law trusts, 2 not-for-profit corporations, 2 limited partnerships, and 2 limited liability companies. The primary focus of the Nationwide holding company system is the underwriting and distribution of insurance products and services, with 23 property and

casualty insurers, 6 life and health insurers, 5 health maintenance organizations, 35 insurance brokerages and agencies, and 10 providers of ancillary insurance-related services. The other 34 entities conduct a diversified range of activities, including mutual fund investment services, real estate investment and management, radio and television broadcasting, data processing, and administration of deferred compensation programs for state and municipal civil service employees throughout the country. The holding company system is a significant provider of variable annuity contracts to members of the National Educational Association.

NMIC's current business emphasis remains with automobile coverages, with distribution primarily by independent agents who confine their representation exclusively to companies in the Nationwide Insurance Enterprise. The company is licensed in the District of Columbia, Puerto Rico, the Virgin Islands, and all states except New Jersey. Approximately 51% of the company's direct premium is written in Pennsylvania, New York, North Carolina, and Ohio. Headquarters are maintained in Columbus, Ohio. As of December 31, 1996, NMIC reported assets of \$13,771,824,796, liabilities of \$9,134,962,193, policyholders' surplus of \$4,636,862,603, and net income of \$153,020,690. NMIC was examined concurrently with EMPLOYERS INSURANCE OF WAUSAU A Mutual Company as of December 31, 1996, and the results of that examination were expressed in a separate report issued by the Ohio Department of Insurance.

Nationwide Mutual Fire Insurance Company

Nationwide Mutual Fire Insurance Company was incorporated under the laws of the state of Ohio on December 27, 1933, and commenced business on April 15, 1934. The incorporator was Nationwide Mutual Insurance Company, then known as the Farm Bureau Mutual Automobile Insurance Company, which advanced all of the organizational expense and initial financing. Operations were conducted under the name of Farm Bureau Mutual Fire Insurance Company until September 1, 1955, when the present name was adopted. Its board of directors is selected under the same nomination process as its sister company, Nationwide Mutual Insurance Company. Although elected in a separate ballot by NMFIC policyholders, the boards of NMIC and NMFIC have long been composed of the same persons.

NMFIC's current business emphasis is on personal home and automobile lines, with distribution primarily by independent agents who confine their representation exclusively to companies in the Nationwide Insurance Enterprise. The company is licensed in all 50 U.S. states, the District of Columbia, Puerto Rico, and the Virgin Islands. Approximately 57% of the company's direct premium is written in Florida, Ohio, North Carolina, and Pennsylvania. Headquarters are maintained in Columbus, Ohio. As of December 31, 1996, NMFIC reported assets of \$2,346,229,168, liabilities of \$1,623,282,638, policyholders' surplus of \$722,946,530, and net income of \$28,378,567. NMFIC was examined concurrently with EMPLOYERS INSURANCE OF WAUSAU A Mutual Company as of December 31, 1996, and the results of that examination were expressed in a separate report issued by the Ohio Department of Insurance.

Nationwide Corporation

Nationwide Corporation is an Ohio-domiciled holding company incorporated on January 25, 1947. Nationwide Mutual Insurance Company, with ownership of 95.2% of all outstanding common shares, exercises effective control of the corporation. Nationwide Mutual Fire Insurance Company holds all other common shares. As of December 31, 1996, the corporation's consolidated financial statements reported assets of \$50,254,030,000, liabilities of \$47,624,734,000, shareholders' equity of \$2,629,296,000, and net income of \$217,568,000.

Subsidiaries

Key Health Plan, Inc.

Key Health Plan, Inc. (KHP) was incorporated in California on May 12, 1994, and commenced business on September 27, 1996. It operates as a health maintenance organization, and is presently regulated by the California Department of Corporations pursuant to the Knox-Keene Health Care Service Plan Act of 1975. At year-end 1996, there were 3,337 participating physicians associated with KHP. Because the corporation was still in the early phases of its operation, there were only 39 enrollees in all programs combined. Direct business is written exclusively in California, the only state in which it is licensed. Of the 1,000 common shares issued and outstanding, 800 are held by Employers Life Insurance Company of Wausau and 200 are held by Key Health Systems Investments Corporation. There is an agreement

whereby EMPLOYERS INSURANCE OF WAUSAU A Mutual Company will provide certain services to KHP including, but not limited to, accounting, policy issuance, actuarial advice, underwriting, premium handling, claim administration, and data processing in connection with cooperatively-marketed products. The statutory annual statement as of December 31, 1996, indicated assets of \$2,845,385, liabilities of \$61,099, and a total net worth of \$2,784,286. Total revenue and net income for 1996 was reported at \$131,660 and \$(526,039), respectively.

Wausau Preferred Health Insurance Company

Wausau Preferred Health Insurance Company was incorporated on April 19, 1976, as Wausau Life Insurance Company. As of December 31, 1996, WPHIC reported assets of \$95,333,592, liabilities of \$1,763,573, policyholders' surplus of \$93,570,019, and net income of \$4,723,773.

A significant change in the company's operations began effective January 1, 1996, when all of the business written or reinsured by the company, including all outstanding loss and loss adjustment reserves, were ceded to ELIC. ELIC took on WPHIC's former role as a reinsurer of affiliated life and accident and health insurance risks, and as the administrator of accident and health insurance plans for Employers. On a prospective basis, WPHIC is expected to concentrate its activities on providing commercial health insurance products issued in conjunction with other products sold by other companies in its holding company system.

Written Agreements with Affiliates

As previously noted, ELIC has no employees of its own. Employees of WSC and NMIC, in accordance with the business practices and internal controls of those organizations conduct all operations. In addition to ongoing common management and control by these upstream affiliates, the company's relationship to its affiliates is affected by various written agreements. Reinsurance agreements are described in the reinsurance section of this report. A brief summary of the other agreements follows:

1. Effective January 1, 1991, the company entered into a service agreement whereby WSC agrees to provide various services including, but not limited to, sales, technical, administrative, and support functions. Expenses subject to this agreement are to be

accounted for in accordance with the standards established by the National Association of Insurance Commissioners (NAIC).

2. ELIC entered into an expense allocation agreement with Employers and its other affiliates effective January 1, 1992. These companies share various administrative services, office facilities, and equipment, with expenses being apportioned among the applicable member/user companies.
3. The company entered into an investment agency agreement with Nationwide Cash Management Company effective April 14, 1986. The business of Nationwide Cash Management Company consists of investing and reinvesting funds contributed by Nationwide Mutual Insurance Company and its affiliates in short-term debt instruments with a maximum duration of one year. It functions in a manner analogous to a short-term bond mutual fund. This agreement may be terminated at the end of any business day upon written notice of ELIC or upon 30 days' written notice from Nationwide Cash Management Company.
4. The company entered into an investment agency agreement with California Cash Management Company effective September 24, 1986. The business of California Cash Management Company is identical to that of its affiliate, Nationwide Cash Management Company. The purpose and structure of this agreement are identical to that with Nationwide Cash Management Company.
5. The company entered into a service agreement with Pension Associates of Wausau, Inc. (hereinafter also "PAW") effective January 1, 1995. Under this agreement, PAW provides marketing advice, and technical, administrative, and support services for the pension plan programs and services ELIC sells.
6. Employers Life Insurance Company of Wausau entered into a master repurchase agreement with EMPLOYERS INSURANCE OF WAUSAU A Mutual Company dated March 5, 1998. This agreement permits each party to purchase from or sell securities to the other at market value plus an agreed-upon short-term interest rate. Resale or repurchase is on demand of either party. The market value of purchased securities which at any time may be subject to

transactions between the parties may not exceed in the aggregate the lesser of: a) the lesser of 2% of the admitted assets or 10% of the policyholder surplus of Employers Life Insurance Company of Wausau or b) 3% of the admitted assets of EMPLOYERS INSURANCE OF WAUSAU A Mutual Company, as of December 31 of the immediately preceding calendar year.

7. The company entered into mortgage loan participation agreements with Nationwide Life Insurance Company and EMPLOYERS INSURANCE OF WAUSAU A Mutual Company, on August 7, 1987, and December 30, 1991, respectively. These agreements provide that, for all joint participation mortgage loans, each party shall have coequal priority with the other. Provisions are also established for the handling of defaults, foreclosures, loan modifications, and the acquisition of loan security.

HOLDING COMPANY CHART

FIRST PAGE OF TWO

HOLDING COMPANY CHART

SECOND PAGE OF TWO

V. REINSURANCE

The company's major reinsurance treaties in force at the time of the examination are summarized below. The contracts contained proper insolvency provisions.

Nonaffiliated Ceding Contracts

1. Type: Automatic Individual Disability Income Modified Coinsurance Agreement

Reinsurer: West Coast Life Insurance Company

Scope: Individual Disability Income Insurance policies

Retention: None

Coverage: 100% of the liability

Premium: Aggregate policy and claims reserves at commencement of contract plus 100% of premiums payable on or after the effective date. under a separate administrative service agreement, a one-time administrative service fee of \$744,000, is payable as cost of conversion of the ceded business to the reinsurer's system

Commissions: None

Effective date: January 1, 1994

Termination: Until all liabilities terminate under the policies
2. Type: Automatic Individual Life Modified Coinsurance Agreement

Reinsurer: West Coast Life Insurance Company

Scope: Individual Life Insurance policies

Retention: None

Coverage: 100% of the liability

Premium: Aggregate policy and claims reserves at commencement of contract plus 100% of premiums payable on or after the effective date

Commissions: \$2,704,000

Effective date: January 1, 1994

Termination: Until all liabilities terminate under the policies
3. Type: Automatic Annuity Modified Coinsurance Agreement

Reinsurer:	West Coast Life Insurance Company																				
Scope:	Annuity Contracts																				
Retention:	None																				
Coverage:	100% of the liability																				
Premium:	Aggregate policy and claims reserves at commencement of contract plus 100% of premiums payable on or after the effective date																				
Commissions:	\$3,226,000 in consideration of the business reinsured																				
Effective date:	January 1, 1994																				
Termination:	Continuous until all liabilities terminate under the annuities																				
4. Type:	Automatic Coinsurance/Yearly Renewable Term Agreement																				
Reinsurer:	Transamerica Occidental Life Insurance Company																				
Scope:	Individual Life Insurance Policy-Closed Block of Business. Initial minimum amount of life insurance is \$5,000.																				
Retention:	Retention Limits: <table><tr><td></td><td>Standard- <u>Table BB</u></td><td>Table C- <u>Table F</u></td><td>Table H- <u>Table P</u></td></tr><tr><td><u>Issue Age</u></td><td></td><td></td><td></td></tr><tr><td>0-65</td><td>\$150,000</td><td>\$100,000</td><td>\$60,000</td></tr><tr><td>66-70</td><td>100,000</td><td>70,000</td><td>55,000</td></tr><tr><td>71 and Over</td><td>55,000</td><td>50,000</td><td>40,000</td></tr></table>		Standard- <u>Table BB</u>	Table C- <u>Table F</u>	Table H- <u>Table P</u>	<u>Issue Age</u>				0-65	\$150,000	\$100,000	\$60,000	66-70	100,000	70,000	55,000	71 and Over	55,000	50,000	40,000
	Standard- <u>Table BB</u>	Table C- <u>Table F</u>	Table H- <u>Table P</u>																		
<u>Issue Age</u>																					
0-65	\$150,000	\$100,000	\$60,000																		
66-70	100,000	70,000	55,000																		
71 and Over	55,000	50,000	40,000																		
Coverage:	No binding limits. Reinsurer assumes liability on a coinsurance basis																				
Premium:	Premium paid on a coinsurance basis and yearly renewal term basis																				
Commissions:	None																				
Effective date:	June 1, 1993																				
Termination:	By either party giving 90 days' written notice																				

5. Type: Life Excess Catastrophe Contract

Reinsurer: ReliaStar Life Insurance Company

Scope: In force, new and renewal Group Life and Group Accident Death & Disability (AD&D) insurance

Retention: Determined as of January 1 of each calendar year. Retention was 90.4% in 1996.

Coverage: \$40,000,000 in excess of \$1,000,000 of ultimate net loss per occurrence, subject to a three life warranty. The company is deemed to have reinsurance to limit subject losses to the following per person:

(1)	Group Life	\$200,000
(2)	Wausau Insurance Companies' Employee Group Life	0 *
(3)	Pre-Retirement Death Benefit	0 *
(4)	Group AD&D	150,000
(5)	Wausau Insurance Companies' Employee Group AD&D	0 *
(6)	Combination Group Life and Group AD&D	350,000
(7)	Wausau Insurance Companies' Employee Combination Group Life, Pre-Retirement Death Benefit and Group AD&D	0 *

* As of January 1, 1996, the Wausau Insurance Company group was transferred to Nationwide Insurance

Premium: \$7,100 annual minimum premium payable in quarterly installments. Annual adjustment based on the rate of \$2.75 per million of mean net retained liability in force during the contract year

Effective date: Continuous from January 1, 1995

Termination: At any December 31 with 90 days' prior notice by certified mail

Affiliated Assuming Contracts

1. Type: Automatic Modified Coinsurance Agreement

Reinsured: Nationwide Life Insurance Company

Scope: Group Contracts

Retention: None

Coverage: 100% liability arising under the policies

Premium:	Initial Reinsurance Premium - NLIC's aggregate contract and claim reserves for group contracts issued and in force as of the effective date of the agreement
	On and after the effective date - 100% of premiums payable
Commissions:	\$61,479,863 based on accounting report and settlement for year ended December 31, 1996
Effective date:	January 1, 1996
Termination:	Continuous until all liability terminates under the group contracts

2. Type: Automatic Coinsurance Agreement
- | | |
|-----------------|---|
| Reinsured: | EMPLOYERS INSURANCE OF WAUSAU A Mutual Company and Wausau Preferred Health Insurance Company |
| Scope: | All group health and life business written or assumed by the reinsured |
| Retention: | None |
| Coverage: | 100% of the net results of the group business |
| Premium: | (1) Portfolio transfer of all net reserves of the reinsured as of December 31, 1995
(2) 100% of the net premium less commissions, taxes, and other expenses |
| Commissions: | \$34,751,143 for EMPLOYERS INSURANCE OF WAUSAU A Mutual Company, and \$2,391,838 for Wausau Preferred Health Insurance Company, based on the accounting results and settlement for period ended December 31, 1996 |
| Effective date: | January 1, 1996, continuous |
| Termination: | Upon 30-day prior written notice by either party. Any termination shall be on a run-off basis |

Nonaffiliated Assuming Contracts

1. Type: Automatic Coinsurance Agreement
- | | |
|------------|--|
| Reinsured: | Minnesota Mutual Insurance Company |
| Scope: | Wisconsin Public Employee Group Life Insurance Plan |
| Retention: | Determined as of January 1 of each calendar year. Retention was 90.4% in 1996 |
| Coverage: | Determined as of January 1 of each calendar year. Reinsurer percentage in 1996 was 9.6% pro rata share of the policy year claim and expenses |

Premium:	Pro rata. 9.6% of the policy year premium
Commissions:	No direct commission. Reinsurers share in the expenses.
Effective date:	January 1, 1990
Termination:	Upon 30-day written notice by either party. Termination by the reinsured requires the consent of the Group Insurance Board of the State of Wisconsin

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 1996, annual statement to the Commissioner of Insurance. Adjustments made as a result of the examination are noted in the section of this report captioned "Reconciliation of Policyholders' Surplus per Examination." Also included in this section are schedules which reflect the growth of the company, the compulsory and security surplus calculation, and NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination.

Employers Life Insurance Company of Wausau
Assets
As of December 31, 1996

	Ledger Assets	Nonledger Assets	Nonadmitted Assets	Admitted Assets
Bonds	\$811,942,125	\$	\$	\$811,942,125
Stocks:				
Preferred stocks	194,000		1,940	192,060
Common stocks	60,234,269	35,660,987		95,895,256
Mortgage loans on real estate:				
First liens	146,729,181			146,729,181
Real estate:				
Acquired in satisfaction of debt	9,404,894		275,000	9,129,894
Policy loans	4,491,105			4,491,105
Cash	141,684			141,684
Short-term investments	6,178,109			6,178,109
Other invested assets	2,556,599		1,154,679	1,401,920
Federal income tax recoverable		288,000		288,000
Life premiums and annuity considerations deferred and uncollected		1,249,071		1,249,071
Accident and health premiums due and unpaid		168,256		168,256
Investment income due and accrued		14,162,655		14,162,655
Amounts receivable relating to uninsured accident and health plans	6,247,770		9,972	6,237,798
Write-ins for noninvested assets:				
Accounts receivable	47,741			47,741
Remittance and items not allocated	353,946			353,946
Funds held or deposited with reinsurers	29,297,832			29,297,832
Interest receivable on securities	<u>168,924</u>	<u> </u>	<u> </u>	<u>168,924</u>
Total excluding separate accounts	1,077,988,179	51,528,969	1,441,591	1,128,075,557
From separate accounts	<u>207,950,415</u>	<u> </u>	<u> </u>	<u>207,950,415</u>
Total Assets	<u>\$1,285,938,594</u>	<u>\$51,528,969</u>	<u>\$1,441,591</u>	<u>\$1,336,025,972</u>

Employers Life Insurance Company of Wausau
Liabilities, Surplus, and Other Funds
As of December 31, 1996

Aggregate reserve for life policies and contracts	\$ 394,354,295
Aggregate reserve for accident and health policies	16,232,862
Supplementary contracts without life contingencies	1,753,384
Policy and contract claims:	
Life	1,853,700
Accident and health	30,708,274
Policyholders' dividend and coupon accumulations	19,294
Provision for policyholders' dividends and coupons payable in following calendar year:	
Dividends not yet apportioned	489,796
Premiums and annuity considerations received in advance	15,065
Liability for premium and other deposit funds:	
Policyholder premiums, including deferred annuity liability	9,959
Other contract deposit funds, including deferred annuity liability	524,482,858
Policy and contract liabilities not included elsewhere:	
Provision for experience rating refunds	158,936
Interest maintenance reserve	5,480,043
General expenses due or accrued	63,000
Transfers to separate accounts due or accrued (net)	(951,485)
Taxes, licenses, and fees due or accrued, excluding federal income taxes	146,000
Amounts withheld or retained by company as agent or trustee	13,071
Miscellaneous liabilities:	
Asset valuation reserve	13,557,952
Payable to parent, subsidiaries, and affiliates	7,887,588
Liability for amounts held under accident and health plans	874,747
Write-ins for liabilities:	
Miscellaneous liabilities:	<u>4,416,738</u>
 Total liabilities excluding separate accounts statement	 1,001,566,077
 From separate accounts statement	 <u>207,950,415</u>
 Total Liabilities	 1,209,516,492
 Common capital stock	 2,500,000
Gross paid-in and contributed surplus	23,913,193
Unassigned funds (surplus)	100,096,287
 Total Capital and Surplus Items	 <u>126,509,480</u>
 Total Liabilities, Surplus, and Other Funds	 <u>\$1,336,025,972</u>

Employers Life Insurance Company of Wausau
Summary of Operations
For the Year 1996

Premiums and annuity considerations	\$437,256,779
Deposit-type funds	77,425,061
Considerations for supplementary contracts without life contingencies and dividend accumulations	92,000
Net investment income	78,645,556
Amortization of interest maintenance reserve	1,173,827
Commissions and expense allowances on reinsurance ceded	22,134
Reserve adjustments on reinsurance ceded	(7,031,157)
Write-ins for miscellaneous income:	
Miscellaneous income	20,318
Administrative fees	2,068,945
Reserve adjustment on reinsurance account	23,541,810
Service contract fees	36,918,891
Interest on funds due from reinsurer	<u>1,484,096</u>
Total income items	651,618,260
Death benefits	16,371,054
Annuity benefits	166,270,798
Disability benefits and benefits under accident and health policies	317,367,095
Group conversions	98,537
Interest on policy or contract funds	623,829
Payments on supplementary contracts with life contingencies	3,432
Payments on supplementary contracts without life contingencies and of dividend accumulations	117,575
Increase in aggregate reserve for life and accident and health policies and contracts	43,074,028
Increase in liability for premium and other deposit funds	(26,037,851)
Increase in reserve for supplementary contracts without life contingencies and for dividend and coupon accumulations	113,456
Subtotal	<u>518,001,953</u>
Commissions on premiums and annuity considerations	117,612
Commissions and expense allowances on reinsurance assumed	98,655,130
General insurance expenses	49,458,843
Insurance taxes, licenses, and fees, excluding federal income taxes	2,259,123
Increase in loading on and cost of collection in excess of loading on deferred and uncollected premiums	<u>(16,934)</u>
Total deductions	<u>668,475,727</u>
Net gain from operations before dividends to policyholders and federal income taxes	(16,857,467)
Dividends to policyholders	<u>7,762</u>
Net gain from operations after dividends to policyholders and before federal income taxes	(16,865,229)
Federal income taxes	<u>(816,857)</u>
Net Income	<u><u>\$(16,048,372)</u></u>

Employers Life Insurance Company of Wausau
Cash Flow
As of December 31, 1996

Premiums and annuity considerations	\$437,269,240	
Deposit-type funds	77,425,061	
Considerations for supplementary contracts without life contingencies and dividend accumulations	92,000	
Net investment income	74,341,064	
Commissions and expense allowances on reinsurance ceded	(7,009,023)	
Write-ins for miscellaneous income:		
Administrative fees	2,068,945	
Service contract fees	37,186,635	
Reserve adjustment on reinsurance account	23,541,810	
Interest on funds due from reinsurer	1,484,096	
Miscellaneous income	<u>20,317</u>	
Total		\$646,420,145
Death benefits	14,681,846	
Annuity benefits	166,270,798	
Disability, accident and health benefits	286,688,520	
Group conversions	98,538	
Interest on policy contract funds	623,829	
Payments on supplementary contracts with life contingencies	3,431	
Payments on supplementary contracts without life contingencies and dividend accumulations	117,575	
Subtotal	<u>468,484,537</u>	
Commissions on premium and annuity considerations	117,612	
Commissions and expense allowances on reinsurance assumed	98,655,130	
General insurance expenses	49,478,843	
Insurance taxes, licenses and fees, excluding federal income taxes	2,189,123	
Net transfers to or (from) separate accounts	431,662	
Total deductions before dividends and federal income taxes	619,356,907	
Federal income taxes	1,021,142	
Total deductions		<u>620,378,049</u>
Net cash from operations		26,042,096
Proceeds from investments sold, matured, or repaid:		
Bonds	106,208,369	
Mortgage loans	6,192,264	
Other invested assets	<u>3,565,090</u>	
Total	115,965,723	
Less: Net tax on capital gains (losses)	290,835	
Total investment proceeds	115,674,888	
Cost of investments acquired (long-term only):		
Bonds	86,960,499	

Mortgage loans	21,483,663	
Real estate	<u>345,945</u>	
Total investments acquired	108,790,107	
Net increase (or decrease) in certificate loans and liens	<u>171,697</u>	
Net cash from investments		6,713,084
Cash provided from financing and miscellaneous sources:		
Other sources	5,267,174	
Cash applied for financing and miscellaneous uses:		
Other applications	35,830,386	
Net cash from financing and miscellaneous sources		(30,563,212)
Net change in cash and short-term investments		2,191,968
Reconciliation		
Cash and short-term investments,		
January 1, 1996		4,127,825
Cash and short-term investments,		
December 31, 1996		<u>\$6,319,793</u>

**Employers Life Insurance Company of Wausau
Compulsory and Security Surplus Calculation
December 31, 1996**

Assets		\$1,336,025,972	
Less investment in insurance subsidiaries not in excess of subsidiaries' security surplus		2,000,000	
Less liabilities		<u>1,209,516,492</u>	
Adjusted surplus			\$124,509,480
Annual premium:			
Individual life and health	\$ 3,248,811		
Factor	<u>15%</u>		
Total		487,322	
Group life and health	179,997,906		
Factor	<u>10%</u>		
Total		17,999,791	
Greater of 7.5% of consideration or 2% of reserves for annuities and deposit administration funds		<u>17,550,188</u>	
Compulsory surplus (subject to a \$2,000,000 minimum)			<u>36,037,301</u>
Compulsory surplus excess or (deficit)			<u>\$88,472,179</u>
Adjusted surplus			\$124,509,480
Security surplus:			
(140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million with a minimum of 110%)			<u>47,569,237</u>
Security surplus excess or (deficit)			<u>\$76,940,243</u>

**Employers Life Insurance Company of Wausau
Reconciliation and Analysis of Policyholders' Surplus
For the Four-Year Period Ending December 31, 1996**

The following schedule is a reconciliation of total policyholders' surplus during the period under examination as reported by the company in its filed annual statements:

Policyholders' surplus, December 31, 1992	\$105,362,055
---	---------------

1993

Net income	\$3,519,518
Change in net unrealized capital gains or (losses)	3,491,901
Change in asset valuation reserve	1,776,464
Capital changes:	
Transferred to surplus	6,000,000
Surplus adjustments:	
Transferred from capital	(6,000,000)
Write-ins for gains and (losses) in surplus:	
Voluntary investment reserve	<u>(950,000)</u>
Net change in policyholders' surplus for the year	<u>7,837,883</u>

Policyholders' surplus, December 31, 1993	113,199,938
---	-------------

1994

Net income	5,397,848
Change in net unrealized capital gains or (losses)	14,260,707
Change in asset valuation reserve	(4,048,971)
Write-ins for gains and (losses) in surplus:	
Voluntary investment reserve	950,000
Prior period adjustment	<u>(778,239)</u>
Net change in policyholders' surplus for the year	<u>15,781,345</u>

Policyholders' surplus, December 31, 1994	128,981,283
---	-------------

1995

Net income	10,964,615
Change in net unrealized capital gains or (losses)	(236,633)
Change in asset valuation reserve	<u>(902,407)</u>
Net change in policyholders' surplus for the year	<u>9,825,575</u>

Policyholders' surplus, December 31, 1995	138,806,858
---	-------------

1996

Net income	(16,048,372)
Change in net unrealized capital gains or (losses)	4,389,397
Change in nonadmitted assets and related items	(9,972)
Change in asset valuation reserve	<u>(628,431)</u>
Net change in policyholders' surplus for the year	<u>(12,297,378)</u>

Policyholders' surplus, December 31, 1996	<u>\$126,509,480</u>
---	----------------------

**Employers Life Insurance Company of Wausau
Insurance Regulatory Information System
For the Four-Year Period Ending December 31, 1996**

The following is a summary of NAIC Insurance Regulatory Information System (IRIS) results for the period under examination. Exceptional ratios are denoted with asterisks. A discussion of the exceptional ratios may be found after the IRIS ratios.

Ratio No. 1—Net Change in Capital and Surplus

NAIC exceptional results are any values less than or equal to -10% or greater than or equal to 50%

Company Results -	1993	7%
	1994	14
	1995	8
	1996	(9)

Ratio No. 1A—Gross Change in Capital and Surplus

NAIC exceptional results are any values less than or equal to -10% or greater than or equal to 50%

Company Results -	1993	7%
	1994	14
	1995	8
	1996	(9)

Ratio No. 2—Net Gain to Total Income

NAIC exceptional results are any values less than or equal to 0

Company Results -	1993	1%
	1994	2
	1995	4
	1996	(2) *

Ratio No. 3 has been discontinued.

Ratio No. 4—Adequacy of Investment Income

NAIC exceptional results are any values greater than or equal to 900% or less than or equal to 125% (not calculated for 1995)

Company Results -	1993	320%
	1994	303
	1996	302

Ratio No. 5—Nonadmitted to Admitted Assets

NAIC exceptional results are any values greater than or equal to 10%

Company Results -	1993	1%
	1994	0
	1995	0
	1996	0

Ratio No. 6—Total Real Estate and Mortgage Loans to Cash and Invested Assets

NAIC exceptional results are any values greater than or equal to 30%

Company Results -	1993	11%
	1994	13
	1995	13
	1996	14

Ratio No. 7—Affiliates to Capital and Surplus

NAIC exceptional results are any values greater than or equal to 100%

Company Results -	1993	71%
	1994	72
	1995	66
	1996	76

Ratio No. 8—Surplus Relief

NAIC exceptional results are any values less than or equal to -99% or greater than or equal to 30% for companies with \$5 million or more in capital and surplus; NAIC exceptional results are any values less than or equal to -10% or greater than or equal to 10% for companies with less than \$5 million in capital and surplus

Company Results -	1993	2%
	1994	7
	1995	2
	1996	(78) *

Ratio No. 9—Change in Premium

NAIC exceptional results are any values less than or equal to -10% or greater than or equal to 50%

Company Results -	1993	67%*
	1994	9
	1995	1
	1996	159 *

Ratio No. 10—Change in Product Mix

NAIC exceptional results are any values greater than or equal to 5%

Company Results -	1993	1.2%
	1994	0.9
	1995	0.5
	1996	9.9 *

Ratio No. 11—Change in Asset Mix

NAIC exceptional results are any values greater than or equal to 5%

Company Results -	1993	0.2%
	1994	0.6
	1995	0.2
	1996	0.4

Ratio No. 12—Change in Reserving Ratio

NAIC exceptional results are any values less than or equal to -20% or greater than or equal to 20%

Company Results -	1993	6%
	1994	62 *
	1995	99 *
	1996	100 *

The exceptional results for Ratio No. 12, "Change in Reserving Ratio," in 1994 and 1995 were due to reinsurance cessions in excess of renewal premiums on ordinary life insurance.

The company experienced five exceptional results in 1996: Ratio No. 2, "Net Gain to Total Income," Ratio No. 8, "Surplus Relief," Ratio No. 9, "Change in Premium," Ratio No. 10, "Change in Product Mix," and Ratio No. 12, "Change in Reserving Ratio." Most of these unusual

values were attributable to the significant revision in the company's plan of operation effective January 1, 1996, whereby ELIC took on WPHIC's former role as a reinsurer of affiliated life and accident and health risks. The result for Ratio No. 2, "Net Gain to Total Income," reflects the company's net loss in income for 1996.

Growth of Employers Life Insurance Company of Wausau

Year	Admitted Assets	Liabilities	Policyholders' Surplus
1992	\$1,024,905,244	\$ 919,543,190	\$105,362,054
1993	1,157,011,164	1,043,811,227	113,199,937
1994	1,176,169,092	1,047,187,809	128,981,283
1995	1,260,707,203	1,121,900,345	138,806,858
1996	1,336,025,972	1,209,516,492	126,509,480

Life Insurance In Force (in thousands)

Year	Gross Direct and Assumed	Ceded	Net
1992	\$2,567,333	\$1,575,617	\$ 991,716
1993	2,898,120	1,943,472	954,648
1994	3,063,883	2,428,257	635,626
1995	2,757,543	2,136,527	621,016
1996	7,135,706	318,080	6,817,626

Accident and Health

Year	Direct Premium Written	Net Premiums Earned	Net Losses Incurred	Commissions Incurred	Combined Other Expenses Incurred	Loss and Expense Ratio
1992	\$ 147,112	\$ 66,294	\$ 108,209	\$ (18,305)	\$ 24,996	173.3%
1993	109,413	79,056	(1,448)	(4,566)	23,110	21.6
1994	108,969	4,593	47,032	(8,381)	9,049	1,938.5
1995	95,126	505	(8,683)	(8,107)	7,980	1,944.6
1996	1,828,800	375,385,334	333,440,415	95,374,477	40,254,788	109.3

The foregoing schedules make apparent the significant change in the company's operations that began effective January 1, 1996. ELIC took on WPHIC's former role as a reinsurer of affiliated life and accident and health insurance risks, and as the administrator of accident and health insurance plans for self-insured plans for EMPLOYERS INSURANCE OF WAUSAU A Mutual Company.

The decline in surplus in 1996 primarily was due to the \$16,048,372 net loss. In its 1996 management discussion and analysis, the company attributes its 1996 net loss to adverse results in group accident and health. Management asserts that these results reflect general

industry trends, whereby premium prices have not kept pace with rising health care costs as industry members compete for market share. The loss for health operations is also held to reflect the rapid growth in enrollment, the start-up costs incurred in introducing new products, and investment in building the infrastructure necessary to achieve the company's long-term goals in this product line.

Reconciliation of Policyholders' Surplus

The examination resulted in no adjustments to the \$126,509,480 in policyholders' surplus reported by the company as of December 31, 1996. Two reclassifications were disclosed as follows:

Examination Reclassifications

	Debit	Credit
Cash		\$3,933,782
Miscellaneous liabilities	\$3,933,782	
Separate Accounts – Cash	29,877	
Separate Accounts – Short-term Investments	<u> </u>	<u>29,877</u>
Total reclassifications	<u>\$3,963,659</u>	<u>\$3,963,659</u>

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were nine specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Management and Control - Therefore, it is recommended that the board of directors formally recognize this joint investment committee if it is to continue to permit it to act on the company's behalf. The action taken should conform to the articles and bylaws of the company.

Action - Compliance.

2. Corporate Records - It is again recommended that the company adopt a service agreement with the Nationwide companies for the servicing of its business.

Action - Noncompliance. Further comment is contained in the section of this report captioned "Corporate Records."

3. Corporate Records - It is recommended that the company develop a procedure whereby a glossary of corporate contracts and reinsurance treaties is maintained, pursuant to ch. 601.42, Wis. Stat.

Action - Compliance.

4. Mortgage Loans on Real Estate - It is recommended that mortgage loans to affiliates be disclosed in accordance with the format of the convention annual statement, pursuant to s. Ins 50.20 (1) (b), Wis. Adm. Code.

Action - Compliance.

5. Real Estate - It is recommended that real estate be reflected in the proper schedule of the annual statement in accordance with the NAIC's Annual Statement Instructions-Life and Health, pursuant to s. Ins 50.20 (1) (b), Wis. Adm. Code.

Action - Compliance.

6. Real Estate - It is recommended that the company depreciate the cost of its properties in accordance with the NAIC's Accounting Practices and Procedures Manual for Life and Accident and Health Insurance Companies, pursuant to s. Ins 50.20 (1) (b), Wis. Adm. Code.

Action - Compliance.

7. Short-term Investments - It is recommended that the company report the gross amount of interest received on short-term investments in accordance with the format of the convention annual statement, pursuant to s. Ins 50.20 (1) (b), Wis. Adm. Code.

Action – Company personnel complied with this recommendation as they understood it. Further comment is contained in the section of this report captioned "Short-term Investments."

8. Note Receivable on Mortgage Loan - It is recommended that loans on personal security be nonadmitted to the extent to which they are not properly secured by collateral in accordance with the NAIC's Accounting Practices and Procedures Manual for Life and Accident and Health Insurance Companies, pursuant to s. Ins 50.20 (1) (b), Wis. Adm. Code.

Action - Compliance.

9. Unlisted Assets - It is recommended that the company utilize Schedule X in accordance with the NAIC's Annual Statement Instructions-Life and Health, pursuant to s. Ins 50.20 (1) (b), Wis. Adm. Code.

Action - Compliance.

Summary of Current Examination Results

Management and Control

The compliance examination as of December 31, 1992, noted that a joint investment committee comprising members of the boards of Nationwide Mutual Insurance Company and EMPLOYERS INSURANCE OF WAUSAU A Mutual Company, though not elected or otherwise recognized by ELIC's board, had issued signed executive resolutions on behalf of ELIC, identifying its own members as the investment committee of ELIC. Accordingly, it was recommended that the board of directors formally recognize this joint investment committee if the board was to continue to allow the committee to act on its behalf. On May 26, 1995, the board authorized the joint investment committee of Nationwide Mutual Insurance Company and EMPLOYERS INSURANCE OF WAUSAU A Mutual Company "to review and approve investments, to issue executive resolutions, and to otherwise act on behalf of the Corporation in investment decisions, consistent with applicable laws and regulations and existing contractual and other obligations of the Corporation".

Increasing integration of executive management within the Nationwide Insurance Enterprise has resulted in the use of more joint committees. The joint audit committee and joint salary and compensation committee for the Nationwide Insurance Enterprise deliberate and act upon matters which directly concern ELIC. It is recommended that the board of directors formally recognize any joint committee that it permits to act on its behalf. The board is reminded that the composition of any joint committee must be consistent with s. 611.56 (1), Wis. Stat., unless its role is strictly advisory.

Corporate Records

The examination reports as of December 31, 1989, and as of December 31, 1992, noted that certain aspects of the company's operations were conducted with assistance from Nationwide Mutual Insurance Company, but that no service agreement existed which clearly and accurately disclosed the specific types of assistance NMIC is providing, and how ELIC is to reimburse or compensate NMIC for its services. Accordingly, both examination reports recommended that the company adopt a service agreement for this purpose.

Section 611.61 (1) (b), Wis. Stat., provides that an insurer may enter into no transaction with an affiliate unless the records of these transactions are kept in a manner that clearly and accurately discloses the nature and details of the transaction. Written service agreements are essential to effectuate compliance with this statute because they provide information critical to an understanding of the purpose and methodology of the accounting transactions reflected in the general ledger and supporting records. This examination indicated that the company has still not entered into a service agreement in compliance with the recommendation of the two prior examination reports. It is again recommended that the company adopt a service agreement with Nationwide Mutual Insurance Company which discloses the services NMIC regularly provides to the company, together with the methods and timing of reimbursement or compensation for these services, pursuant to s. 611.61(1)(b), Wis. Stat.

The company was incorporated by reference under the terms of an investment advisory agreement between Employers and Nationwide Advisory Services, Inc. (then known as "Nationwide Financial Services, Inc."), effective January 1, 1986. Pursuant to this agreement, Nationwide Advisory Services, Inc., agrees to supply investment management services to Employers and its subsidiaries and affiliates including, but not limited to, development of investment programs, advice, research, statistical data collection, provision of informational reports, and mortgage loan administration. ELIC's minutes indicate that the board of directors reviews and ratifies the investment activities conducted on behalf of the company on a regular basis.

Within the investment advisory agreement between Employers and Nationwide Advisory Services, Inc., ELIC and Employers' other downstream subsidiaries were not referenced by name, but simply as subsidiaries of Employers. Accordingly, when ELIC and its subsidiary, Wausau Preferred Health Insurance Company, were sold to Nationwide Life Insurance Company effective January 1, 1996, the agreement ceased to apply to these companies. The ongoing servicing relationship between Nationwide Advisory Services, Inc., and ELIC should be evidenced by a written contract. It is recommended that the company adopt a service agreement with Nationwide Advisory Services, Inc., which discloses the services National Advisory Services, Inc., regularly provides to the company, together with the methods and timing of reimbursement or compensation for these services, pursuant to s. 611.61 (1) (b), Wis. Stat.

Real Estate

It is not the usual practice of the company to make direct investments in real estate. All real estate held by the company as of December 31, 1996, consists of indivisible interests held jointly with other insurers in nine properties secured through foreclosure, or acceptance of deed in lieu of foreclosure. Of the nine properties, Nationwide Life Insurance Company coordinates the work of the nonaffiliated property managers for eight, while West Coast Life Insurance Company coordinates the work of a nonaffiliated property manager for one. ELIC's personnel maintain their real estate records from various reports sent to them by either Nationwide Life Insurance Company or West Coast Life Insurance Company.

Schedule A of the 1996 annual statement was not prepared according to the requirements of its format and contained numerous inaccuracies. The following columns were not completed, despite their applicability to the properties included on the schedule: column 4 (Name of Vendor), column 14 (Taxes, Repairs, and Expenses Incurred), column 16 (Amount of Mortgage at the Time of Acquisition as Real Estate), and column 17 (Amount of Taxes, Foreclosure Costs & Other Expenses Capitalized in the Book Value of Real Estate). Figures for column 8 (Market Value Less Encumbrances) should have been identical to the figures in column 9 (Statement Value), but were instead reported as identical to those in column 7 (Book

Value Less Encumbrances). Figures in column 13 (Gross Income Earned Less Interest Incurred on Encumbrances) were identical to column 15 (Net Income), and reflected only cash forwarded by property managers net of actual and anticipated expenses. Figures for certain of the properties reflected only the period through November 30, 1996. Information through December 31, 1996, was available to Nationwide Life Insurance Company and was used in preparation of its own Schedule A, but was not forwarded to ELIC personnel on a timely basis.

Differences between the figures reported on Schedule A and those resulting from this examination are summarized as follows:

Column Number	Line Description	Per Company	Per Examination	Difference
6	Cost to Company	\$9,986,317	\$10,252,941	\$266,624
7	Book Value Less Encumbrances	9,404,894	9,665,544	260,650
8	Market Value Less Encumbrances	9,404,894	9,390,544	(14,350)
9	Statement Value	9,129,894	9,390,544	260,650
10	Increase or (Decrease) by Adjustment			
	To Book Value During Year	(178,367)	(182,111)	(3,744)
11	Expended for Additions and			
	Permanent Improvements During Year	345,947	555,015	209,068
12	Amounts Received During Year for			
	Sales of Rights and Privileges	-0-	-0-	-0-
13	Gross Income Earned Less Interest			
	Incurred on Encumbrances	683,623	1,319,913	636,288
14	Taxes, Repairs and Expenses Incurred	-0-	665,138	(665,138)
15	Net Income	683,623	654,775	(28,852)
16	Amount of Mortgage at the Time of			
	Acquisition as Real Estate	-0-	9,575,487	9,575,487
17	Amount of Taxes, Foreclosure Costs &			
	Other Expenses Capitalized in Book			
	Value of Real Estate	-0-	677,426	677,426
18	Amount of Past Due & Accrued Interest			
	Capitalized in Book Value of Real			
	Estate	-0-	-0-	-0-

Formal adjustment of the balance sheet and income statement to correct the foregoing differences was waived for purposes of this examination. However, the foregoing summary indicates the extent of problems with respect to the completion of Schedule A. It is recommended that Schedule A of future statutory annual statements be prepared accurately and according to its format.

Cash

This balance sheet item is intended to represent money, negotiable money orders, bank drafts and checks, and balances on deposit with banks after any outstanding items have been deducted. The company reported a balance for this line item of \$141,684 as of December 31, 1996, while the examination resulted in a balance of \$(3,792,098).

The company inappropriately classified certain bank account balances totaling \$(3,933,782) as miscellaneous liabilities for annual statement reporting purposes. These reclassifications were made as a matter of company practice. The \$(3,933,782) balance consisted of \$(82,052) in a zero-balance checking account with the National Bank of Detroit, N.A. and \$(3,851,730) in a zero-balance checking account with M&I First American Bank. There is no effect on stated surplus as a result of this practice. Nonetheless, the practice has the effect of overstating the balance of cash and is contrary to statutory accounting principles. It is recommended that the company report checks outstanding net of its cash balances in accordance with the NAIC's Accounting Practices and Procedures Manual For Life and Accident and Health Insurance Companies, pursuant to s. Ins 50.20 (1) (b), Wis. Adm. Code.

The company's cash is maintained in eight accounts at seven depositories. The name and location of two cash depositories were not accurately reported in Schedule E of the 1996 annual statement. An account with Wells Fargo Bank in San Francisco, California, was reported as being with First Interstate Bank in Chicago, Illinois, and another account with the National Bank of Detroit, N.A. in Detroit, Michigan, was reported as being with J.P. Morgan in Newark, New Jersey. Misidentification of depositories was also noted in the statement of separate accounts. An account with the Bank of New York in New York City was reported as being with Firststar Bank in Milwaukee, Wisconsin. It is recommended that the company accurately identify the name and location of its cash depositories in Schedule E in accordance with the NAIC's Annual Statement Instructions—Life and Health, pursuant to s. Ins 50.20 (1) (b), Wis. Adm. Code. This treatment should also be applied to short-term investments reported in future filings of the statement of separate accounts.

Short-term Investments

The company has investment accounts with California Cash Management Company and Nationwide Cash Management Company, both of which are affiliated management companies. These affiliates manage separate portfolios, each consisting of short-duration debt obligations and cash equivalents, for various participating members of the Nationwide Insurance Enterprise.

The principal balances of funds invested with these companies are properly stated and disclosed in the 1996 annual statement. Income derived from these investments is included in Exhibit 2, "Net Investment Income," the summary of operations, and Schedule DA, Part 2, lines 11 and 12, of the annual statement. However, throughout the period under examination, the gross amount of interest received has not been reported in Schedule DA, Part 1, of the annual statement.

The company's data processing system for short-term investments is structured much along the same lines as the annual statement reporting format for bonds. The system allocates income to the various parts of Schedule DA that would exist if its format were like that of Schedule D. While the system may well hold some advantages for the monitoring of transactions on a day-to-day basis, it requires additional effort to convert information to the format of the statutory financial statements. The company's system only includes gross interest received for these investment accounts on Schedule DA, Part 1, with respect to "purchase lots" that are still owned by the company at year-end.

The format of the annual statement provides a reasonable expectation that the gross amount of interest received on an investment fund, as reported on Schedule DA, Part 1, is the gross amount received for the year. Listing the figures for the gross amount received on specific investment accounts on Schedule DA, Part 1, may be analytically useful to people who have occasion to review the annual statement. It is recommended that the company report the gross amount of interest received on short-term investments in accordance with the format of the convention annual statement. This treatment should also be applied to short-term investments reported in future filings of the statement of separate accounts.

This situation with respect to Schedule DA was noted during the last examination, and a recommendation was made to correct it. During 1995, the company and its affiliates began reporting the short-term investment income on a gross basis on Schedule DA, Part 2. Based on discussions with investment accounting staff, the examiner-in-charge was convinced that company personnel acted to comply with the prior recommendation, as they understood it. Accordingly, this examination has declined to report this as a repeated recommendation.

Miscellaneous Liabilities

The company reported a balance for this line item of \$4,416,738 as of December 31, 1996, while the examination resulted in a balance of \$482,956. The difference is the result of a reclassification of \$3,933,782 in outstanding checks drawn against two zero-balance checking accounts to cash.

This reclassification is reflected in the section of this report captioned, "Reconciliation of Policyholders' Surplus." The circumstances of this reclassification are described in the section of this report captioned "Cash."

Separate Accounts - Cash

This balance sheet line item on the 1996 statement of separate accounts is intended to represent money, negotiable money orders, bank drafts and checks, and balances on deposit with banks after any outstanding items have been deducted. The company reported a balance for this line item of \$37,332 as of December 31, 1996, while the examination noted that the balance should have been \$7,455. This reclassification is reflected in the section of this report captioned, "Reconciliation of Policyholders' Surplus."

The balance of \$37,332 reported by the company consisted of \$7,455 in a bank account and \$29,877 in the Benchmark Diversified Assets Portfolio, a money market mutual fund sponsored by The Northern Trust Company in Chicago, Illinois.

According to the NAIC's Annual Statement Instructions – Life and Health, money market mutual funds as defined by Purposes and Procedures Manual of the NAIC Securities Valuation Office Sections 4(A)(i) and 4(A)(ii) are to be reported as short-term investments on Schedule DA. Money market funds are not to be reported on Schedule E. It is recommended

that the company classify money market mutual funds in accordance with the NAIC's Annual Statement Instructions – Life and Health, pursuant to s. Ins 50.20 (1) (b), Wis. Adm. Code.

Separate Accounts – Short-term Investments

The company reported a balance for this line item of \$9,076,488 as of December 31, 1996, while the examination resulted in a balance of \$9,106,365. The difference is the result of a reclassification of \$29,877 in the Benchmark Diversified Assets Portfolio from cash.

This reclassification is reflected in the section of this report captioned, "Reconciliation of Policyholders' Surplus". The circumstances of this reclassification are described in the section of this report captioned "Separate Accounts – Cash."

The entire \$9,076,488 reported by the company consisted of an investment account with the Nationwide Cash Management Company. This affiliate manages a portfolio consisting of short-duration debt obligations and cash equivalents, for various participating members of the Nationwide Insurance Enterprise. Comment concerning the reporting of short-term investment income in the statement of separate accounts is included in the section of this report captioned, "Short-term Investments".

VIII. CONCLUSION

Policyholders' surplus has increased from \$105,362,055 as of year-end 1992, to \$126,509,480 as of year-end 1996. This represents an increase of 20.1% during the period under examination.

The following schedule summarizes the cumulative increases and decreases to surplus from December 31, 1992, when policyholders' surplus was last verified by examination, to December 31, 1996:

Policyholders' surplus, December 31, 1992	\$105,362,055
Change in net unrealized capital gains	21,905,372
Net income	3,833,609
Change in asset valuation reserve	(3,803,345)
Prior period adjustment	(778,239)
Change in nonadmitted assets and related items	<u>(9,972)</u>
Policyholders' surplus, December 31, 1996	<u>\$126,509,480</u>

Areas of improvement recommended by this examination included, but were not limited to, documenting agreements with affiliates in writing, real estate accounting, the identification of cash depositories, and reporting investment income.

While the company is a separate legal entity, it has no employees of its own. All of the company's operations are conducted by employees of Wausau Service Corporation and Nationwide Mutual Insurance Company. Therefore, the practices and procedures of these entities are important to the operating results of the company.

There was a significant revision in the company's plan of operation effective January 1, 1996. This revision was most prominently reflected in certain new reinsurance arrangements:

- Effective January 1, 1996, the company assumes all of the group A&H insurance risks written by its affiliate, EMPLOYERS INSURANCE OF WAUSAU A Mutual Company. Pursuant to the reinsurance agreement, Employers is entitled to withhold funds in proportion to the outstanding policy and claim reserve levels. The reinsurance agreement provides for the payment of interest to the company on funds withheld. By this reinsurance agreement, the company replaced its subsidiary, Wausau Preferred Health Insurance Company, as Employers' group A&H reinsurer.

- Effective January 1, 1996, the company provides to Employers certain services for uninsured accident and health plans, which were previously performed by Employers itself. The company essentially performs in the capacity of a subcontractor. The service fee income is reflected as service contract fees in the statement of operations, while the allocated expense is included in general insurance expenses. For some years prior to January 1, 1996, Wausau Preferred Health Insurance Company acted in this subcontracting capacity.
- Effective January 1, 1996, the company entered into a modified coinsurance agreement with Nationwide Life Insurance Company, an affiliate, whereby accident and health and group life insurance written or assumed by Nationwide Life is ceded to the company. Under modified coinsurance agreements, the ceding company retains the reserves and related invested assets. In accordance with the agreement, quarterly settlements are made for the difference between the yield on the assets supporting the reserves reinsured and the net change in the reserves reinsured.
- Effective January 1, 1996, the company assumes from Wausau Preferred Health Insurance Company, a direct wholly owned subsidiary, 100% of its direct group A&H risks. Outstanding reserves held by WPHIC at January 1, 1996, were transferred to the company pursuant to this agreement.

On a prospective basis, ELIC has been positioned to grow with capitated community health plan arrangements in selected secondary markets, particularly in Wisconsin and central California. The company will provide administrative services to health maintenance organizations. Management will continue to seek growth in its ancillary products, consisting of long-term disability and group life, which have been profitable. Achieving growth in these ancillary lines will require emphasis to be placed upon administrative service arrangements for self-insured employers.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 42 - Management and Control - It is recommended that the board of directors formally recognize any joint committee that it permits to act on its behalf. The board is reminded that the composition of any joint committee must be consistent with s. 611.56 (1), Wis. Stat., unless its role is strictly advisory.
2. Page 43 - Corporate Records - It is again recommended that the company adopt a service agreement with Nationwide Mutual Insurance Company which discloses the services NMIC regularly provides to the company, together with the methods and timing of reimbursement or compensation for these services, pursuant to s. 611.61 (1) (b), Wis. Stat.
3. Page 44 - Corporate Records - It is recommended that the company adopt a service agreement with Nationwide Advisory Services, Inc., which discloses the services National Advisory Services, Inc., regularly provides to the company, together with the methods and timing of reimbursement or compensation for these services, pursuant to s. 611.61 (1) (b), Wis. Stat.
4. Page 45 - Real Estate - It is recommended that Schedule A of future statutory annual statements be prepared accurately and according to its format.
5. Page 46 - Cash - It is recommended that the company report checks outstanding net of its cash balances in accordance with the NAIC's Accounting Practices and Procedures Manual For Life and Accident and Health Insurance Companies, pursuant to s. Ins 50.20 (1) (b), Wis. Adm. Code.
6. Page 46 - Cash - It is recommended that the company accurately identify the name and location of its cash depositories in Schedule E in accordance with the NAIC's Annual Statement Instructions—Life and Health, pursuant to s. Ins 50.20 (1) (b), Wis. Adm. Code. This treatment should also be applied to short-term investments reported in future filings of the statement of separate accounts.
7. Page 47 - Short-term Investments - It is recommended that the company report the gross amount of interest received on short-term investments in accordance with the format of the convention annual statement. This treatment should also be applied to short-term investments reported in future filings of the statement of separate accounts.
8. Page 48 - Separate Accounts - Cash - It is recommended that the company classify money market mutual funds in accordance with the NAIC's Annual Statement Instructions—Life and Health, pursuant to s. Ins 50.20 (1) (b), Wis. Adm. Code.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers of the company and employees of Wausau Service Corporation and Nationwide Mutual Insurance Company is acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, state of Wisconsin, participated in the examination:

Name	Title
Cruz J. Flores	Senior Insurance Examiner, Data Processing Audit Specialist
Teri M. McClintock	Financial Examiner
Akin Morakinyo	Financial Examiner
Bertram Oparaji	Financial Examiner
Eleanor Opprieht	Financial Examiner
Roger A. Peterson	Senior Insurance Examiner, Loss Reserve Audit Specialist
Frederick H. Thornton	Senior Insurance Examiner, Exam Planning & Quality Control Specialist

Respectfully submitted,

Steven J. Junior
Examiner-in-Charge